

DOCUMENT RESUME

ED 152 192

HE 009 777

TITLE College Opportunity Act of 1978.
INSTITUTION Congress of the U.S., Washington, D.C. Senate Committee on Human Resources.
REPORT NO SR95-643
PUB DATE 28 Feb 78
NOTE 33p.; Senate Calendar No. 585, 95th Congress, 2nd Session
AVAILABLE FROM Superintendent of Documents, Government Printing Office, Washington, D.C. 20402
EDRS PRICE MF-\$0.83 HC-\$2.06 Plus Postage.
DESCRIPTORS College Students; Educational Legislation; Family Income; *Federal Aid; *Federal Legislation; *Financial Support; *Grants; Higher Education; State Aid; *Student Financial Aid; *Student Loan Programs; Work Study Programs
IDENTIFIERS Basic Educational Opportunity Grants; *College Opportunity Act 1978; Higher Education Act 1965; Parental Financial Contribution

ABSTRACT

The passage of S. 2539, the College Opportunity Act of 1978, to amend the Higher Education Act of 1965 to improve the basic educational opportunity grants program, is recommended in this Senate report from Senator Claiborne Pell. The bill provides for: (1) a rate no higher than 10.5 percent in determining a family's expected contributions from parental discretionary income for calculating the size of a student's grant under the Basic Educational Opportunity Grant program; (2) an increase in the mandatory minimum funding for the College Work-Study Program; (3) an increase in the mandatory minimum funding for the Supplemental Educational Opportunity Grant program; (4) a technical amendment to the state student incentive grant program to allow continued participation in that program of states having constitutional prohibitions against participation of nonprofit institutions of higher education in state grant programs; and (5) repealing the unsubsidized portion of the Guaranteed Loan Program, making students eligible for a subsidy of interest on their loans during their in-school period, regardless of their families' income. Provisions of the bill, justification for it, votes in the Committee on Human Resources, cost estimates, the regulatory impact of the bill, and changes in existing law made by the bill are provided. (SPG)

* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *

ED152192

Calendar No. 585

95TH CONGRESS
2d Session

SENATE

REPORT
No. 95-643

COLLEGE OPPORTUNITY ACT OF 1978

FEBRUARY 28 (legislative day FEBRUARY 6), 1978.—Ordered to be placed on
the calendarMr. PELL, from the Committee on Human Resources,
submitted the followingU.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
EDUCATIONTHIS DOCUMENT HAS BEEN REPRO-
DUCED EXACTLY AS RECEIVED FROM
THE PERSON OR ORGANIZATION ORIGIN-
ATING IT. POINTS OF VIEW OR OPINIONS
STATED DO NOT NECESSARILY REPRESENT
OFFICIAL NATIONAL INSTITUTE OF
EDUCATION POSITION OR POLICY

REPORT

together with
ADDITIONAL VIEWS

[To accompany S. 2539]

The Committee on Human Resources, to which was referred the bill (S. 2539) to amend the Higher Education Act of 1965 to improve the basic educational opportunity grants program, and for other purposes, having considered the same, reports favorably thereon with amendments, and recommends that the bill as amended do pass.

BACKGROUND OF THE COMMITTEE AMENDMENT

During the first session of the 95th Congress, the Subcommittee on Education, Arts and Humanities of the Committee on Human Resources held a hearing on September 21, 1977, on the proposed schedule of expected family contributions for the basic educational opportunity grant program. At this hearing, representatives of the Department of Health, Education, and Welfare testified to changes they proposed to make in the schedule to provide for increased participation of students from middle-income families in the basic grant program. However, other witnesses before the subcommittee urged further liberalization of the schedule so that substantially more middle-income students would be eligible for grant assistance.

On February 1, 1978, S. 2473 was introduced to effect such a liberalization of the basic grant schedule, through a reduction in the rate of assessment of parental discretionary income to 10.5 percent.

On February 7, 1978, President Carter proposed to increase his budget recommendations for fiscal year 1979 by \$1.2 billion, primarily in the basic grant program to assure substantially increased participa-

tion of middle-income students. A joint hearing of the Senate Committee on Human Resources and the House Committee on Education and Labor was held on February 9, 1978, to discuss the President's proposals.

On February 10, 1978, the President's bill, S. 2538, was introduced in the Senate, along with a modification of that approach, S. 2539, designed to provide even greater grant assistance to middle-income students.

Subcommittee action on S. 2539 was taken on February 22, 1978, when the bill was reported to full committee. The Committee on Human Resources reported the legislation to the Senate, with amendments, on February 24, 1978.

BRIEF SUMMARY OF THE COMMITTEE BILL

Section 2(a) of the bill provides that, beginning with the academic year 1979-80 and thereafter, the Commissioner may apply a rate no higher than 10.5 percent in determining a family's expected contribution from parental discretionary income. Currently, the rate applied is 20 percent of the first \$5,000 of parental discretionary income and 30 percent of any excess.

Subsection 2(b) increases the mandatory minimum funding for the college work-study program from \$237,400,000 to \$500 million. This is the threshold level which must be appropriated before funds may be spent on the basic grant program.

Subsection 2(c) increases the mandatory minimum funding for the supplemental educational opportunity grant program from \$130,093,000 to \$370 million for fiscal year 1979 and to \$450 million for fiscal year 1980 and thereafter. These levels, again, must be met before funds can be made available for basic grants. The section also increases the authorization for initial year supplemental grants—those available to first-time students—from \$200 million to \$250 million.

Subsection 2(d) makes a technical amendment to the State student incentive grant program to allow continued participation in that program of States which have constitutional prohibitions against participation of nonprofit institutions of higher education in State grant programs.

Section 3 of the bill repeals the unsubsidized portion of the guaranteed loan program, making students eligible for a subsidy of interest on their loans during their in-school period, regardless of their families' incomes.

NEED FOR THE LEGISLATION

In the past decade, the costs of sending a child to college have skyrocketed. Between 1967 and 1976, the cost of sending a child to an average college has increased by 77 percent.

The average cost of tuition, room, and board at a nonpublic institution today is more than \$4,800 per year, a staggering \$19,200 for the 4 years necessary to obtain a bachelor's degree. The number of colleges which cost between \$6,000 and \$7,000 for a single year is increasing. And the costs of public institutions, whose charges are already partially subsidized by the taxpayers, are also rising sharply. At many public universities today, a student can be expected to pay more than \$2,500 a year to cover education-related expenses.

Although Federal assistance, in the form of grants, loans, and work-study opportunities, has been steadily rising during the past decade, it has not been able to keep pace with the more rapidly rising demand for aid. Given limited Federal dollars, more and more emphasis has been given to aiding those with greatest financial need. Middle-income families, who do the work of our society, pay the bills, and bear the brunt of the tax burden, found themselves increasingly unable to get aid for their children's higher education. Colleges found themselves increasingly facing student bodies made up of the able poor, who could get Federal aid, and the able rich, who could afford to pay their own way.

It was the able children of middle-income families who were unable to find any form of assistance except, possibly, loans, to enable them to meet the staggering costs of college. Many promising careers undoubtedly were abandoned because of inability to seek further education, whether at an institution of higher education or in a trade or technical school. The Nation is the loser.

The bill proposed by the committee is designed to meet this overwhelming need to increase student assistance so that it meets the needs of middle-income families. S. 2539 builds upon the basic building blocks of student aid—basic educational opportunity grants, supplemental educational opportunity grants, college work-study, State student incentive grants, and guaranteed student loans—already familiar to schools and colleges across the country, as well as to millions of parents and students in postsecondary education.

In framing S. 2539, the committee has attempted to make as few changes in the provisions of the programs as possible, to reduce confusion and to assure that the greatest number of eligible students benefit from the programs. Another major goal of the committee bill is the reduction of paperwork already accompanying Federal aid program, such as the needs test in the guaranteed loan program. A third is the avoidance of the creation of any new bureaucracy to monitor or administer any of the programs contained in the bill. By building on existing structures, the committee is confident that no new bureaucracies will grow up.

PROVISIONS OF THE COMMITTEE BILL

Basic educational opportunity grant programs

The basic educational opportunity grant program, commonly known as basic grants, was originally enacted in 1972. In the past 5 years, it has grown from a mere idea to a program which aids more than 2.1 million students a year in pursuing their postsecondary education.

Prior to the enactment of basic grants, Federal student assistance programs administered by the Department of Health, Education, and Welfare, with the exception of the guaranteed loan program, were administered through participating colleges and schools. Appropriated funds were divided pursuant to statutory State-level formulas. Distribution within-State to schools and colleges was initially determined by a regional panel of student aid experts, based on their judgments of institutional requests for funds. The Commissioner of Education retained final authority over all institutional allotments.

However, the essential element in this process was that it was the institution, not the student, which was the focus of attention and decisionmaking. In too many cases, a student was forced to choose his

college because funds were available, whereas a preferred institution was unable to offer assistance. Even the amount of aid was, within statutory limits, totally dependent on institutional decisions. Selection of a student to receive assistance, from a pool of equally qualified candidates, was equally totally within the discretion of institutional officials.

Basic grants were developed to provide a counterforce to these pressures. Under the basic grant program the student is the consumer. He takes his grant eligibility to the institution of his choice, regardless of the institution's other financial aid resources. Any equally situated students are treated in exactly the same manner by basic grants.

The mechanism is relatively simple. The statute sets the grant ceiling—\$1,400 for the first several years, \$1,800 under the education amendments of 1976 (although appropriations for fiscal year 1977 were sufficient only to increase the maximum grant to \$1,600). A student and his family fill out a form setting forth income and assets for the preceding calendar year, a form not unlike the one generations of students have been filling out for their colleges in order to establish eligibility for student aid. This form is mailed to a central address for a calculation, free of charge, of possible eligibility for a basic grant.

The calculation is purely mechanical, made by a computer. Information provided by the student or his parents is programed to arrive at a single figure representing parental discretionary income—that income to which a student might look for some assistance with his education. To arrive at this figure, certain subtractions are made from net income—tax liability, a family size offset (that amount necessary for the family to meet daily living expenses such as rent and food), any unusual expenses such as high medical bills, additional costs for siblings in college or in private elementary and secondary schools, and any special circumstances or disasters which might have affected the family's ability to pay during the year. After all of these deductions have been made, the figure that remains, if any, is labeled "parental discretionary income." Under current practice, a family is expected to contribute 20 percent of the first \$5,000 of this figure, and 30 percent of any excess, toward their child's education.

This contribution is deducted from the grant ceiling; the remainder is the size of the student's basic grant.

Of course, a student and his family are not required to make these calculations themselves, although detailed explanations are available. The student receives a single sheet of paper indicating the size of the grant for which he or she is eligible, or the reasons for ineligibility. This Student Eligibility Report is taken by the student to the school of his choice and submitted to the student financial aid officer for payment or credit toward the student's bills. No individual checks are required to be issued, as the institutions operate under a letter of credit system with the Department of Health, Education, and Welfare, and certify to the Department as payments are made to students as they enroll.

The amendment made by the committee bill would effect a simple change in the computer's calculations of families' ability to pay. Where the computer is now programed to assess discretionary income

at 20 percent and 30 percent, the committee bill would require a flat assessment rate of 10.5 percent.

This would cost approximately \$1.2 billion over the current level of \$2.054 billion, but would add approximately 1.5 million new students as eligible basic grant recipients. A comparison of the existing program with that contemplated by S. 2539 follows:

EXISTING PROGRAM

Income	Recipients		Funds		Average award
	Number (thousands)	Percent	Amount (millions)	Percent	
0 to \$5,300.....	464	21.1	\$483	23.5	\$1,041
\$5,301 to \$9,900.....	733	33.3	811	39.5	1,106
\$9,901 to \$15,900.....	745	33.8	624	30.4	838
\$15,901 to \$19,900.....	227	10.3	124	6.0	546
\$19,901 to \$26,500.....	35	1.6	12	.6	343
\$26,501-plus.....	0	0	0	0	0
Total.....	2,204	100.0	2,054	100.0	934

PROGRAM PROPOSED BY S. 2539

Income	Recipients		Funds		Average award
	Number (thousands)	Percent	Amount (millions)	Percent	
0 to \$5,300.....	464	12.6	\$483	14.9	\$1,041
\$5,301 to \$9,900.....	735	20.0	837	25.8	1,139
\$9,901 to \$15,900.....	881	23.9	897	27.7	1,018
\$15,901 to \$19,900.....	627	17.0	505	15.6	805
\$19,901 to \$26,500.....	698	19.0	412	12.7	590
\$26,501-plus.....	276	7.5	106	3.3	384
Total.....	3,680	100.0	3,240	100.0	889

The amendment to the basic educational opportunity grant program proposed by President Carter would have expanded the program to aid middle-income families by guaranteeing a flat grant of \$250 to students from families with incomes between \$15,000 and \$25,000. The committee rejected this approach, as it did not believe it to be a fair reflection of the relative abilities of families within that income range to finance their children's education. While a family at the \$25,000 range of the scale might be conceived to have a liquidity problem as propounded by Secretary Califano in the joint hearing, it appeared to the committee that a family at the \$15,000 end of the scale had actual need for grant assistance, and assistance above the level of \$250.

Therefore, the committee bill provides for a graduated program of grants, based on families' actual income and ability to afford the spiraling costs of postsecondary education. A comparison of the estimated grant award to a student from the average family of four, under the committee bill and under the President's proposal, is as follows:

Income	S. 2539	President's proposal
\$6,000.....	\$1,800	\$1,800
\$8,000.....	1,630	1,600
\$10,000.....	1,459	1,270
\$12,000.....	1,280	940
\$15,000.....	1,020	250
\$19,000.....	700	250
\$21,000.....	540	250
\$23,000.....	390	250
\$24,000.....	310	250
\$25,000.....	250	250
Total cost (billions).....	1.2	1

One of the major concerns of the committee in proposing this legislation is that it not lead to the creation of massive new bureaucracies to administer it. S. 2539 avoids this pitfall. By building on an existing program, and by making a change in a computer program rather than in any other element of the legislation, the bill assures that no new bureaucracy will be needed. The form a student and his parents must fill out will remain unchanged. No new data items will be required by the committee bill, so no additional burden of data collection and reporting will be placed on students and parents. If anything, the committee would urge the Department of Health, Education, and Welfare, as it has consistently done in the past, to simplify the existing form as much as possible, so that it serves as no conceivable deterrent to any individual's applying for the grant to which he is entitled. The committee pledges to continue to work with the Department in seeking ways to simplify the legislation, if that is necessary to simplify the basic grants form.

One area of change in the basic grant program which the President proposed, on which the committee did not act, relates to the treatment of the assets of a single independent student who has dependents. Under current regulations, assets of independent students are considered to be available for such students' education up to 33 percent per year of their total value. While this may make some sense in the case of an independent student in his early twenties who has a small bank account, such treatment can work substantial inequities upon the widow who must return for further postsecondary education in order to support her family. Witnesses before the committee last September urged the Department to reconsider their treatment of the single independent student with dependents and to change the current regulations. While the committee does not at this time propose to amend the law to change HEW's regulations on this point, it would add its voice to that of the higher education community in urging the Department of Health, Education, and Welfare to take administrative steps currently well within its authority to remedy this inequity of treatment.

College work-study

The committee bill increases from \$237,400,000 to \$500 million the minimum amount which must be appropriated for the college work-study program before funds may be made available under the basic grant program. This program pays 80 percent of a student's salary for a part-time job for his institution of higher education or other nonprofit institution.

The President had proposed an increase to \$600 million, a rise of \$165 million over the current appropriation of \$435 million. It was estimated that his increase would help provide work opportunities for as many as 280,000 new students, bringing the entire population of students on work-study assistance to more than 1 million. Of these, approximately 380,000 would have been from middle-income families.

However, the committee was concerned that representatives of the higher education community expressed doubt that 280,000 student jobs could be found or created in the coming year. Therefore, the committee bill only mandates an appropriation level of \$500 million. However, if further need is shown actually to exist, the current authorization level of \$600 million will provide sufficient authority for appropriations above the \$500 million level.

Supplemental educational opportunity grants

Supplemental educational opportunity grants are intended to supplement the basic grant program, providing grants to qualified students of exceptional financial need, and allowing student financial aid officers to make available additional grant assistance to students in special circumstances which the basic grant program is unable to measure.

Grant size, based on the student's financial need as determined by the institution, ranges from \$200 to a maximum of \$1,500 for an academic year, or one-half of the total amount of financial aid provided to the student by the institution, whichever is the lesser amount.

Growth in the supplemental grant program has not kept pace with the basic grant program, although supplemental grants continue to be of vital necessity to the balance of student aid programs, especially for students at high cost institutions. In 1973, the first year in which basic grants were funded, the ratio between the programs was one to 2, with supplemental grants receiving an appropriation twice as large as basic grants. The current ratio has dramatically shifted to 8 to one.

The committee bill would raise the mandatory minimum appropriation for supplemental grants to \$370 million for fiscal year 1979, an increase of \$100 million over the budget request for that fiscal year. In fiscal year 1980, the threshold figure would rise to \$450 million.

Current law authorizes \$200 million for initial-year Supplemental Grants, those made to first-time students. The authorization for grants for sophomores, juniors, and seniors is indefinite, depending on their continuing need. The committee bill raises the authorization for grants to freshmen to \$250 million, to allow for the maintenance of the current ratio between initial year and continuation grants reflected in appropriations patterns.

The increase of \$100 million in supplemental grants would, it is estimated by the American Council on Education, provide grants to an additional 182,000 students from middle-income families.

State student incentive grant program

Under the State student incentive grant program, the Federal Government provides grants to States on a one-to-one matching basis, to assist them in providing individual grants, based on financial need, to undergraduate students attending institutions of higher education.

Since 1974, the number of States participating in the program has grown from 27 to 49. Federal funds expended for State student incentive grants are matched on a dollar-for-dollar basis by State funds. Although a number of States significantly overmatch the Federal payment, the leverage effect of the State matching requirement is significantly greater than in other Federal grant programs which have no similar matching requirement. The committee believes that these highly desirable characteristics of the State Student incentive grant program should be given full consideration in the process of funding the provisions of S. 2539. Because of bonus payments in the program to those States which have their own student loan programs, the State student incentive grant program is certainly an effective tool to expand both grants and loans to middle-income students.

The education amendments of 1976, as passed by the Senate, expanded eligibility in the State student incentive grant program to stu-

dents in all nonprofit institutions of higher education. The report to accompany the Senate bill states:

The committee believes that no State should make a prohibition against a nonprofit educational institution, unless State constitutional prohibitions intervene.

The conference committee accepted the Senate language, with this additional statement:

The managers want to emphasize that this amendment is intended to broaden student access to this program by requiring States to extend eligibility to students in all nonprofit institutions. While the conference substitute does not require States to include students in other educational institutions, neither does it require that the States exclude students at such institutions if they now make them eligible, nor does it contain any suggestion that the Congress intends to foreclose State options with regard to the question of the eligibility of students at such schools.

Although the intent of Congress in using the language "all nonprofit institutions" was to assure participation in State programs of students enrolled in independent colleges and universities, it may have the effect—as the result of State constitutional limitations—of precluding a State's participation in the State student incentive grant program.

The amendment adopted by the committee would make express the intent of the original Senate provision that State constitutional barriers should not prohibit a State's participation in the entire State student incentive grant program.

Guaranteed student loan program

For more than a decade, the guaranteed student loan program has been the primary program available to middle-income families to finance their children's education. Since direct grant and work-study programs focused on those with greatest financial need, all too often middle-income families were offered only loan assistance in meeting the ever-increasing costs of higher education.

Even these loans have not always been easy to get. Until 1976, only families with adjusted gross incomes of less than \$15,000 per year were eligible for subsidized guaranteed loans—the subsidy meaning that the Federal Government paid the student's 7 percent interest charge during the period the student was in school. Above the \$15,000 income level, families were theoretically eligible to receive federally guaranteed loans without the interest subsidy for the in-school period.

However, these loans were all too often unavailable, as they were unattractive to lenders. Subsidized loans in a lender's portfolio could have all interest subsidies billed as a single item to the Federal Government. Each unsubsidized loan meant that a lender would have to undertake the paperwork necessary to collect interest from the borrower on a monthly or quarterly basis. Given the size of the loans—about \$1,000, on the average—and the rate of return—7 percent—many lenders simply refused to make unsubsidized loans.

By 1976 Congress recognized that the \$15,000 adjusted gross income level for an interest subsidy was far too low. The Consumer Price Index had risen 65 percent since the figure was established in 1965,

but the income level had remained unchanged. Therefore the education amendments of 1976 raised the family income level eligible for a subsidized loan to an adjusted gross income of \$25,000 (a net income of approximately \$30,000).

President Carter on February 8, 1978, proposed to raise the ceiling on unsubsidized loans to an adjusted family income of \$40,000 a net income of approximately \$47,500. He estimated that this change would significantly open up the program to middle-income families seeking additional financial help, as well as to those who sought to even out college expenses over a long term, rather than receiving a smaller short-term benefit.

The committee applauded the President's liberalization of the program to include large numbers of middle-income families. However, since those which would be covered by the revision proposed by the President make up 98 percent of our Nation's population, it made little sense to the committee to continue to maintain the fiction of any income limitation on interest subsidies.

Under present law, each student applying for a subsidized guaranteed loan must undergo a financial need determination, to ascertain his family's adjusted gross income. This determination of need has to be calculated by the student's college or school, through subtracting from the estimated cost of attendance at the school the total the student's family could be expected to contribute to his education, any other aid he was receiving, and the student's own resources. This determination must be certified by the school to the lender before a subsidized loan can be made.

It appeared to the committee that it was unreasonable and unwise to continue to make 98 percent of the population submit to a needs analysis in order to assure that 2 percent might not be eligible to receive subsidized loans. Therefore the committee bill lifts all ceilings on subsidized loans and abandons the fiction of unsubsidized loans.

It is estimated that the cost of removing the ceiling above \$40,000 adjusted gross income is only \$9 million. The savings in time and paperwork from the elimination of the needs test in the guaranteed loan program, while difficult to measure in dollar terms, will have a far greater impact on parents and students from hundreds of thousands of families.

The guaranteed loan program has been plagued with problems since its inception. Default rates have been estimated to be as high as 20 percent, and program mismanagement has compounded the problems. The committee has repeatedly encouraged the Department of Health, Education, and Welfare to improve the management of the program, and to reduce the default rate to acceptable levels.

The education amendments of 1976 sought to provide a number of tools to assist the Department. Some were requested by the agency itself; others were suggested by the Committee on Government Operations, as an outgrowth of that committee's oversight hearings on program administration; still other amendments were suggested by members of this committee, as a result of the committee's continuing program oversight. Among the administrative changes made in the program a year ago were the denial of the remedy of bankruptcy to student defaulters within 5 years of graduation; elimination of the authority of schools with unacceptable default rates to continue as

lenders; prohibition on the use of commissioned salesmen to "peddle" guaranteed loans; authority for the Commissioner of Education to utilize private collectors in attempting to collect on guaranteed loans; and broadened requirements for schools to provide information to students, so that they are not misled concerning their responsibility to repay their loans.

Another important legislative improvement in the guaranteed student loan program was a series of incentives to States to establish their own loan programs. The 1976 hearings clearly demonstrate that States which operate their own programs provide greater access to guaranteed loans for their own students, have a markedly lower rate of student defaults, and have greater control over other administrative problems. At that time, only 26 States were directly operating their own student loan programs with Federal reinsurance coverage. In order to induce the remaining States to reestablish their own programs, it was proposed that a bonus in the State student incentive grant program be paid to any State which operates its own loan program. This proposal was accepted by the House/Senate conferees, so that bonus payments in State student incentive grant appropriations shall be paid to States which operate their own loan programs when the annual appropriation for the State student incentive grant program reaches \$75 million per year. The committee believes this provision represents a continuing commitment by the Congress to improve the student loan programs by providing incentives for States to operate their own loan programs. At present a number of States, including Minnesota, Kansas, and California, have begun the necessary State-level activities to initiate a federally reinsured student loan program. The committee believes the State student incentive grant bonus payments are a good faith commitment to the States and wishes to assure those parties contemplating new State loan programs that the incentives promised in the education amendments of 1976 will remain in place.

All of these changes hold promise for reducing drastically the existing default rate in the program. In addition, the Secretary of Health, Education, and Welfare, on February 16, 1978, announced a major new management effort to clean up the administration of the program. The committee will be watching this effort closely, as it has as one of its highest priorities the reduction of defaults in the guaranteed student loan program.

VOTES IN COMMITTEE

Pursuant to section 133(b) of the Legislative Reorganization Act of 1946, as amended, the following is a tabulation of votes cast in committee.

1. Amendment of Mr. Eagleton to increase minimum funding for supplemental educational opportunity grants. Adopted by voice vote as modified to reduce minimum funding for college work-study.

2. Amendment by Mr. Eagleton to allow States with constitutional barriers to involvement of nonpublic institutions to participate in the State student incentive grant program. Adopted by voice vote.

3. Motion by Mr. Pell to report S. 2539, as amended, to the Senate. Adopted: 14 yeas, 0 nays, one member not voting.

TEA

NAYS

Mr. Randolph
Mr. Pell
Mr. Kennedy
Mr. Eagleton
Mr. Cranston
Mr. Hathaway
Mr. Riegle
Mr. Javits
Mr. Schweiker
Mr. Stafford
Mr. Hatch
Mr. Chafee
Mr. Hayakawa
Mr. Williams

CONGRESSIONAL BUDGET OFFICE,
U.S. CONGRESS,
Washington, D.C., February 27, 1978.

HON. HARRISON A. WILLIAMS,
Chairman, Committee on Human Resources,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: Pursuant to Section 403 of the Congressional Budget Act of 1974, the Congressional Budget Office has prepared the attached cost estimate for S. 2539, the College Opportunity Act of 1978.

Should the committee so desire, we would be pleased to provide further details on the attached cost estimate.

Sincerely,

ALICE M. RIVLIN, *Director.*

CONGRESSIONAL BUDGET OFFICE—COST ESTIMATE

FEBRUARY 27, 1978.

1. Bill number: S. 2539.
2. Bill title: College Opportunity Act of 1978.
3. Bill status: As ordered reported from the Senate Human Resources Committee, February 24, 1978.
4. Bill purpose: The purpose of this bill is to expand the basic educational opportunity grants program (BEOG), to increase authorization for supplementary educational opportunity grants program (SEOG), to extend the eligibility for guaranteed student loans (GSL) to all students regardless of family income, and for other purposes.
5. Cost estimate:

(In millions of dollars)

	Fiscal year—				
	1979	1980	1981	1982	1983
Authorization levels:					
BEOG program.....	1,381				
SEOG program.....	50	38	30	25	
GSL program.....	33	85	138	193	249
Total.....	1,464	123	168	218	249
Projected total cost:					
BEOG program.....	110	1,105	166		
SEOG program.....	4	49	37	30	23
GSL program.....	22	68	121	175	231
Total.....	136	1,222	324	205	254

Note: The costs of this bill fall within budget function 500.

6. **Basis for estimate:** CBO projects the total cost of the BEOG's program, including the provisions in S. 2539, to be \$3.3 billion in budget authority, a \$1.356 billion increase over current policy. The increase reflects several changes from current policy:

(1) Basic grants are fully funded at the \$1,800 maximum level. Under current policy, basic grants are funded at a \$1,600 maximum level.

(2) The asset reserve for nonfarm families is raised to \$25,000, an increase of \$8,000 over current policy.

(3) The assessment rate on family disposable income is changed to a flat 10 and one half percent. Current policy assesses the first \$5,000 of disposable income at 20 percent and any amount above \$5,000 at 30 percent.

(4) Since the number of BEOG applicants will almost double, a corresponding increase was assumed in administrative costs. This estimate assumes a \$24 million increase in administrative funds over current policy.

The spendout rate, which reflects the forward funded nature of the BEOG program, is assumed to be 8 percent the first year, 80 percent the second and the remainder the third year.

The SEOG estimate is based on the maximum authorization level as stated in S. 2539 for first year grants. The outyear authorization levels are the automatic result under current law of increasing first year grants in the SEOG program. The estimate also assumes a cost reduction of 50 percent over the 4-year period as students drop out of the program. Costs assume full appropriation and a spendout of 8 percent the first year with the remainder spending out in the second year.

The GSL estimate is based on several assumptions:

(1) The 2.9 million newly eligible students would apply and obtain loans at the same rate as those in the present program.

(2) The new loans would average about \$1,600 in fiscal year 1979 reflecting the fact that higher income students attend higher cost schools. The projected average loan in fiscal year 1979 under the current program would be \$1,542.

(3) The new loan volume in fiscal year 1979 is assumed to be only two-thirds that of a full year due to the time lag in implementing the legislation, and in the information flow to eligible students.

(4) Loans to the original eligible population might decline if lending institutions hold their portfolios constant, and lend to the lower-risk higher-income students. However, it is not yet known how lending institutions will in fact respond to the new provisions. Therefore, no additional changes were assumed to occur in the existing program as a result of this legislation.

(5) New loans are projected to increase at the rate at which higher education enrollments increase over the next 5 years. Costs reflect the one quarter lag in Federal payments made to the lending institutions.

No additional cost is associated with the sections of the bill increasing the work/study or SEOG limitations on the BEOG appropriations. These limitation provisions make payments under the BEOG's program subject to a floor on appropriation levels for work/study and SEOG's, but do not actually increase existing authorization levels for

those programs. However, if the Appropriation Committee funds the BEOC program in fiscal year 1979 at the levels implied in this bill then the Appropriations Committee would have to include an additional appropriation of \$104 million over current policy to cover the SEOG and work/study limiting provisions. These additional funds do, however, include the \$50 million increase in authorization levels for the SEOG program in fiscal year 1979.

The authorization for both basic grants and new supplemental grants expire in September 1979. Since this bill does not extend authorization for these programs, the cost impact of this bill is only for fiscal year 1979.

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Deborah Kalcevic.

10. Estimate approved by:

JUNE O'NEILL,
(For James L. Blume,
Assistant Director for Budget Analysis).

REGULATORY IMPACT

In accordance with paragraph V of rule XXIX of the Standing Rules of the Senate, the following statement of the regulatory impact of the bill is made.

The basic purpose of S. 2539 is to expand the coverage of existing student financial aid programs administered by the Department of Health, Education, and Welfare to assure that students from middle-income families are eligible to receive benefits.

Since only existing programs are affected, no additional individuals or businesses would be subject to regulation. There would, therefore, be no additional economic impact due to increased regulation.

Persons seeking to establish eligibility for basic educational opportunity grants would be required to disclose certain information concerning their income and assets, in order to establish their eligibility for a grant. This is no change from the existing program, which requires such an objective determination of need.

No additional paperwork would be required, as S. 2539 utilizes the forms and procedures already in place for student assistance programs. No new forms or data items would be required to be filled out by students and parents.

In addition, no new bureaucracy would be required to administer or monitor the program. The change made in basic grants by S. 2539 goes only to a change in computer program. Staff to administer and monitor the program is already in place within the Department of Health, Education, and Welfare. It would not need any substantial increase as the result of enactment of S. 2539. In addition, monitoring responsibility will be shared with institutions of higher education, on a pilot basis, under a new initiative announced by Secretary Califano on February 16, 1978. This will provide additional cross-checking of data accuracy without any additions to Federal staff.

With regard to the amendments to the guaranteed student loan program made by S. 2539, substantial paperwork will be eliminated. Under current law, each student seeking a guaranteed loan must fill

out a needs analysis form, so that it may be determined whether his adjusted family income is \$25,000 or less, thereby entitling him to an interest subsidy during the time he is in school. S. 2539 would eliminate this needs test for more than a million students, not only reducing paperwork, but also eliminating untold man-hours of labor for student financial aid officers and bankers in assessing student need.

SECTION-BY-SECTION ANALYSIS

Section 2(a) amends section 411(a)(3)(B) of the Higher Education Act of 1965 by providing that, beginning with the academic year 1979-80 and thereafter, in determining the expected family contribution the Commissioner shall not apply a rate in excess of 10.5 percent to parental discretionary income.

Section 2(b) amends section 411(b)(5)(B) of the act to raise the mandatory minimum appropriation for the college work-study program to \$500 million.

Section 2(c)(1) amends section 411(b)(5)(A) of the act to raise the mandatory minimum appropriation for the supplementary educational opportunity grants program to \$370 million in fiscal year 1979, and to \$450 million in fiscal year 1980 and thereafter. Subsection (2) of the section amends section 413A (b)(1) of the act to increase the authorization for the initial year supplementary educational opportunity grants to \$250 million for fiscal year 1979.

Section 2(d) amends section 415C(b)(4) to provide that States participating in the State student incentive grant program must not discriminate against nonprofit institutions of higher education "except in any State in which participation of nonprofit institutions of higher education is in violation of the Constitution of the State."

Section 3 amends section 428(a)(2)(A) of the Higher Education Act to eliminate any ceiling on adjusted family income for eligibility for Federal payment of an interest subsidy during the period that the student is enrolled in a school or institution of higher education.

Subsections (b), (c), (d), (e), and (f) of section 3 make conforming changes to eliminate all reference to the determination of financial need for subsidy purposes.

CHANGES IN EXISTING LAW

In compliance with subsection (4) of rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets; new matter printed in *italic*):

* * * * *

TITLE IV—STUDENT ASSISTANCE

PART A—GRANTS TO STUDENTS IN ATTENDANCE AT INSTITUTIONS OF HIGHER EDUCATION

STATEMENT OF PURPOSE; PROGRAM AUTHORIZATION

SEC. 401. (a) It is the purpose of this part, to assist in making available the benefits of postsecondary education to qualified students in institutions of higher education by—

(1) providing basic educational opportunity grants (hereinafter referred to as "basic grants") to all eligible students;

(2) providing supplemental educational opportunity grants (hereinafter referred to as "supplemental grants") to those students of exceptional need who, *for lack of such a grant, would be unable to obtain the benefits of a postsecondary education;*

(3) providing for payments to the States to assist them in making financial aid available to such students;

(4) providing for special programs and projects designed (A) to identify and encourage qualified youths with financial or cultural need with a potential for postsecondary education, (B) to prepare students from low-income families for postsecondary education, and (C) to provide remedial (including remedial language study) and other services to students; and

(5) providing assistance to institutions of higher education.

(b) The Commissioner shall, in accordance with subparts 1, 2, 3, 4 and 5, carry out programs to achieve the purposes of this part.

(20 U.S.C. 1070) Enacted June 23, 1972, P.L. 92-318, SEC. 131(b) (1), 86 Stat. 247-248; amended June 23, 1972, P.L. 92-318, SEC. 1001(c), 86 Stat. 381.

SUBPART 1—BASIC EDUCATIONAL OPPORTUNITY GRANTS

BASIC EDUCATIONAL OPPORTUNITY GRANTS: AMOUNTS AND DETERMINATIONS; APPLICATIONS

SEC. 411. (a) (1) The Commissioner shall, during the period beginning July 1, 1972, and ending September 30, 1979, pay to each student who has been accepted for enrollment in, or is in good standing at, an institution of higher education (according to the prescribed standards, regulations, and practices of that institution) for each academic year during which that student is in attendance at that institution, as an undergraduate, a basic grant in the amount for which that student is eligible as determined pursuant to paragraph (2).

(2) (A) (i) The amount of the basic grant for a student eligible under this subpart for any academic year shall be \$1,800, less an amount equal to the amount determined under paragraph (3) to be the expected family contribution with respect to that student for that year.

(ii) In any case where a student attends an institution of higher education on less than a full-time basis during any academic year, the amount of the basic grant to which that student is entitled shall be reduced in proportion to the degree to which that student is not so attending on a full-time basis, in accordance with a schedule of reductions established by the Commissioner for the purposes of this division. Such schedule of reductions shall be established by regulation and published in the Federal Register not later than February 1 of each year.

(B) (i) The amount of a basic grant to which a student is entitled under this subpart for any academic year shall not exceed 50 per centum of the actual cost of attendance at the institution at which the student is in attendance for that year.

(ii) No basic grant under this subpart shall exceed the difference between the expected family contribution for a student and the actual cost of attendance at the institution at which that student is in at-

tendance. If with respect to any student, it is determined that the amount of a basic grant plus the amount of the expected family contribution for that student exceeds the actual cost of attendance for that year, the amount of the basic grant shall be reduced until the combination of expected family contribution and the amount of the basic grant does not exceed the actual cost of attendance at such institution.

(iii) No basic grant shall be awarded to a student under this subpart if the amount of that grant for that student as determined under this paragraph for any academic year is less than \$200. Pursuant to criteria established by the Commissioner by regulation, the institution of higher education at which a student is in attendance may award a basic grant of less than \$200 upon a determination that the amount of the basic grant for that student is less than \$200 because of the requirement of division (i) and that, due to exceptional circumstances, this reduced grant should be made in order to enable the student to benefit from postsecondary education.

(iv) For the purpose of this subparagraph and subsection (b) the term "actual cost of attendance" means, subject to regulations of the Commissioner, the actual per-student charges for tuition, fees, room and board (or expenses related to reasonable commuting), books, and an allowance for such other expenses as the Commissioner determines by regulation to be reasonably related to attendance at the institution at which the student is in attendance.

(3) (A) (i) Not later than July 1 of each calendar year, the Commissioner shall publish in the Federal Register a schedule of expected family contributions for the academic year which begins after July 1 of the calendar year which succeeds such calendar year for various levels of family income, which, except as is otherwise provided in division (ii), together with any amendments thereto, shall become effective July 1 of the calendar year which succeeds such calendar year. During the thirty-day period following such publication the Commissioner shall provide interested parties with an opportunity to present their views and make recommendations with respect to such schedule.

(ii) The schedule of expected family contributions required by division (i) for each academic year shall be submitted to the President of the Senate and the Speaker of the House of Representatives not later than the time of its publication in the Federal Register. If either the Senate or the House of Representatives adopts, prior to the first day of October next following the submission of said schedule as required by this division, a resolution of disapproval of such schedule, the Commissioner shall publish a new schedule of expected family contributions in the Federal Register not later than fifteen days after the adoption of such resolution of disapproval. Such new schedule shall take into consideration such recommendations as may be made in either House in connection with such resolution and shall become effective, together with any amendments thereto, with respect to grants to be made on or after the first day of July next following. The Commissioner shall publish together with such new schedule, a statement identifying the recommendations made in either House in connection with such resolution of disapproval and explaining his reasons for the new schedule.

(B) (i) For the purposes of this paragraph and subsection (b), the term "family contribution" with respect to any student means the amount which the family of that student may be reasonably expected to contribute toward his postsecondary education for the academic year for which the determination under subparagraph (A) of paragraph (2) is made, as determined in accordance with regulations. In promulgating such regulations, the Commissioner shall follow the basic criteria set forth in division (ii) of this subparagraph.

(ii) The basic criteria to be followed in promulgating regulations with respect to expected family contributions are as follows:

(I) The amount of the effective income of the student or the effective family income of the student's family.

(II) The number of dependents of the family of the student.

(III) The number of dependents of the student's family who are in attendance in a program of postsecondary education and for whom the family may be reasonably expected to contribute for their postsecondary education.

(IV) The amount of the assets of the student and those of the student's family.

(V) Any unusual expenses of the student or his family, such as unusual medical expenses, and those which may arise from a catastrophe.

(VI) Any educational expenses of other dependent children in the family.

(iii) For the purposes of clause (I) of division (ii), the terms "effective family income" with respect to a student, and including any amount paid under the Social Security Act to, or on account of, the student which would not be paid if he were not a student and one-half any amount paid the student under chapters 34 and 35 of title 38, United States Code, means the annual adjusted family income, as determined in accordance with regulations prescribed by the Commissioner, received by the parents or guardian of that student (or the person or persons having an equivalent relationship to such student) minus Federal income tax paid or payable with respect to such income.

(iv) *Beginning with the academic year 1979-1980 and thereafter, in determining the expected family contribution under this subparagraph no rate in excess of 10.5 per centum shall be applied to parental discretionary income.*

(C) The Commissioner shall promulgate special regulations for determining the expected family contribution and effective family income of a student who is determined (pursuant to regulations of the Commissioner) to be independent of his parents or guardians (or the person or persons having an equivalent relationship to such student). Such special regulations shall be consistent with the basic criteria set forth in division (ii) of subparagraph (B).

(4) (A) The period during which a student may receive basic grants shall be the period required for the completion of the undergraduate course of study being pursued by that student at the institution at which the student is in attendance, except that such period may not exceed four academic years unless—

(i) the student is pursuing a course of study leading to a first degree in a program of study which is designed by the institution offering it to extend over five academic years; or

(ii) the student is, or will be, unable to complete a course of study within four academic years because of a requirement of the institution of such course of study that the student enroll in a institution of such course of study that the student enroll in a non-credit remedial course of study; in either which case such period may be extended for not more than one additional academic year.

(B) For the purposes of clause (ii) of subparagraph (A), a "non-credit remedial course of study" is a course of study for which no credit is given toward an academic degree, and which is designed to increase the ability of the student to engage in an undergraduate course of study leading to such a degree.

(b)(1) The Commissioner shall from time to time set dates by which students must file applications for basic grants under this subpart.¹

(2) Each student desiring a basic grant for any year must file an application therefor containing such information and assurances as the Commissioner may deem necessary to enable him to carry out his functions and responsibilities under this subpart.

(3)(A) Payments under this section shall be made in accordance with regulations promulgated by the Commissioner for such purpose, in such manner as will best accomplish the purposes of this section.

(B)(i) If, during any period of any fiscal year, the funds available for payments under this subpart are insufficient to satisfy fully all entitlements under this subpart, the amount paid with respect to each such entitlement shall be—

(I) in the case of any entitlement which exceeds \$1,000, 75 per centum thereof;

(II) in the case of any entitlement which exceeds \$800 but does not exceed \$1,000, 70 per centum thereof;

(III) in the case of any entitlement which exceeds \$600 but does not exceed \$800, 65 per centum thereof; and

(IV) in the case of any entitlement which does not exceed \$600, 50 per centum thereof.

(ii) If, during any fiscal year, funds available for making payments under this subpart exceed the amount necessary to make the payments prescribed in division (i), such excess shall be paid with respect to each entitlement under this subpart in proportion to the degree to which that entitlement is unsatisfied.

(iii) In the event that, at the time when payments are to be made pursuant to this subparagraph (B), funds available therefor are insufficient to pay the amounts set forth in division (i), the Commissioner shall pay with respect to each entitlement an amount which bears the same ratio to the appropriate amount set forth in division (i) as the total amount of funds so available at such time for such payments bears to the amount necessary to pay the amounts indicated in division (i) in full.

(iv) No method of computing or manner of distribution of payments under this subpart shall be used which is not consistent with this subparagraph.

(v) In no case shall a payment under this subparagraph be made if the amount of such payment after application of the provisions of this subparagraph is less than \$50.

(4) (A) If, at the end of a fiscal year, the funds available for making payments under this subpart exceed the amount necessary to make the payments required under this subpart to eligible students by 15 per centum or less, then all of excess funds shall remain available for making payments under this subpart during the next succeeding fiscal year.

(B) If, at the end of a fiscal year, the funds available for making payments under this subpart exceed the amount necessary to make the payments required under this subpart to eligible students by more than 15 per centum, then all of such funds shall remain available for making such payments but payments may be made under this division only with respect to entitlements for that fiscal year.

(5) No payments may be made on the basis of entitlements established under this subpart during any fiscal year ending prior to October 1, 1979, in which—

(A) the appropriation for making grants under subpart 2 of this part does not at least equal ~~[\$130,093,000]~~ *\$370,000,000 for the fiscal year 1979, and \$450,000,000 for the fiscal year 1980 and thereafter; and*

(B) the appropriation for work-study payments under section 441 of this title does not at least equal ~~[\$237,400,000]~~ *\$500,000,000; and*

(C) the appropriation for capital contributions to student loan funds under part E of this title does not at least equal ~~\$286,000,000.~~

(c) Any institution of higher education which enters into an agreement with the Commissioner to disburse to students attending that institution the amounts those students are eligible to receive under this subpart shall not be deemed, by virtue of such agreement, a contractor maintaining a system of records to accomplish a function of the Commissioner.

(d) (1) In addition to payments made with respect to entitlements under this subpart, each institution of higher education shall be eligible to receive from the Commissioner the payments of \$10 per academic year for each student enrolled in that institution who is receiving a basic grant under this subpart for that year. Payment received by an institution under this subsection shall be used first to carry out the provisions of section 493A of this Act and then for such additional administrative costs as the institution of higher education determines necessary.

(2) There are authorized to be appropriated such sums as may be necessary to carry out the provisions of this subsection. If the sums appropriated for any fiscal year for making payments under this subsection are not sufficient to pay in full the amounts provided for in paragraph (1), then such amount will be ratably reduced. In case additional funds become available for making payments for any fiscal year during which the preceding sentence has been applied, such reduced amounts shall be increased on the same basis as they were reduced.

(e) (1) The Commissioner shall enter into agreements with not less than two nor more than five States for the processing by such States of all applications of their residents (through an instrumentality or agent selected by such State) for grants made under this subpart for the academic year beginning after July 1, 1977, on con-

dition that any State grants which are subsidized in part by Federal funds, during the period for which State processing of basic education opportunity grant applications is carried out by the State, will be available to eligible State residents for use at the majority of educational institutions outside that State which are eligible institutions under subpart 1 of this part. No later than ninety days after termination of the agreements, the Commissioner shall report to the Congress on the experience with multiple State processing, including its impact on the delivery of student aid to students, and including recommendations concerning whether the option of processing applications for grants under this subpart should be made available to all States having the capacity to do so.

(2) Any State entering into an agreement with the Commissioner shall—

(A) not be required, without the State's consent, to perform services in excess of those required of any private agency or organization with whom the Commissioner has a contract to perform similar application processing, except such additional services as may be necessary to produce processing services of a type and quality equivalent to those produced, through the same or other means; and

(B) be required to determine student eligibility for awards under this subpart solely on the basis of criteria set forth in this subpart and regulations promulgated by the Commissioner pursuant thereto.

(3) The Commissioner shall promulgate such regulations as may be necessary—

(A) to determine a fair per unit fee for application processing which, if the Commissioner has a contract with an agency or organization to perform similar application processing, shall be no more than the amount paid by the Commissioner per application for the same academic year to any such agency or organization; and

(B) to otherwise carry out the purposes of this subsection.

(4) Nothing contained in this section or other enactments of law shall be construed to prohibit any eligible State under subsection (c) of this section from—

(A) employing student application forms that solicit information required for both the determination of eligibility under this subpart and for the determination of eligibility under the postsecondary educational grant programs of such State; and

(B) coordinating the eligibility announcements of State postsecondary educational grants and grants under this subpart.

(5) No State which enters into an agreement with the Commissioner may impose any fee or other charge upon a student for processing of the student's application for a grant under this subpart.

SUBPART 2—SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS

PURPOSE; APPROPRIATIONS AUTHORIZED

SEC. 413A. (a) It is the purpose of this subpart to provide, through institutions of higher education, supplemental grants to assist in making available the benefits of postsecondary education to qualified stu-

dents who, for lack of financial means, would be unable to obtain such benefits without such a grant.

(b)(1) For the purpose of enabling the Commissioner to make payments to institutions of higher education which have made agreements with the Commissioner in accordance with section 413C(b), for use by such institutions for payments to undergraduate students for the initial academic year of a supplemental grant awarded to them under this subpart, there are authorized to be appropriated \$200,000.-000 for the fiscal year ending June 30, 1973, [and for each of the succeeding fiscal year ending prior to October 1, 1979] and for each of the 5 succeeding fiscal years, and \$250,000,000 for the fiscal year ending September 30, 1979. Funds appropriated pursuant to this paragraph shall be appropriated separate from any funds appropriated pursuant to paragraph (2).

(2) In addition to the sums authorized to be appropriated by paragraph (1), there are authorized to be appropriated such sums as may be necessary for payment to institutions of higher education for use by such institutions for making continuing supplemental grants under this subpart, except that no appropriation may be made pursuant to this paragraph for any fiscal year beginning more than three years after the last fiscal year for which an appropriation is authorized under paragraph (1). Funds appropriated pursuant to this paragraph shall be appropriated separate from any funds appropriated pursuant to paragraph (1).

(3) Sums appropriated pursuant to this subsection for any fiscal year shall be available for payments to institutions until the end of the fiscal year succeeding the fiscal year for which they were appropriated.

(4) For the purposes of this subsection, payment for the first year of a supplemental grant shall not be considered as an initial year payment if the grant was awarded for the continuing education of a student who—

(A) had been previously awarded a supplemental grant under this subpart (whether by another institution or otherwise), and

(B) had received payment for any year of that supplemental grant.

for such fiscal year for the State student grant incentive program of that State shall be available for reallocation from time to time, on such dates during such year as the Commissioner may fix, to other States in proportion to the original allotments to such States under such part for such year, but with such proportionate amount for any of such States being reduced to the extent it exceeds the sum the Commissioner estimates such State needs and will be able to use for such year for carrying out the State plan; and the total of such reductions shall be similarly reallocated among the States whose proportionate amounts were not so reduced. Any amount reallocated to a State under this part during a year from funds appropriated pursuant to section 415A(b)(1) shall be deemed part of its allotment under paragraph (1) for such year.

(b) Subject to the provisions of section 415E, sums appropriated pursuant to section 415(A)(b)(2) for any fiscal year shall be allotted among the States in such manner as the Commissioner determines will best achieve the purposes for which such sums were appropriated.

(c) The Commissioner shall make payments for continuing incentive grants only to those States which continue to meet the requirements of section 415C(b) (1), (2), (3), and (5).

APPLICATIONS FOR STATE STUDENT INCENTIVE GRANT PROGRAMS

SEC. 415C (a) A State which desires to obtain a payment under this subpart for any fiscal year shall submit an application therefor through the State agency administering its program of student grants, at such time or times, and containing such information as may be required by, or pursuant to, regulation for the purpose of enabling the Commissioner to make the determinations required under this subpart.

(b) From a State's allotment under this subpart for any fiscal year the Commissioner is authorized to make payments to such State for paying 50 per centum of the amount of student grants pursuant to a State program which—

(1) is administered by a single State agency;

(2) provides that such grants will be in amounts not in excess of \$1,500 per academic year for attendance on a full-time basis as an undergraduate at an institution of higher education;

(3) provides for the selection of recipients of such grants on the basis of substantial financial need determined annually on the basis of criteria established by the State and approved by the Commissioner;

(4) provides that, effective with respect to any academic year beginning on or after October 1, 1978, all nonprofit institutions of higher education in the State are eligible to participate in the State program *except in any State in which participation of nonprofit institutions of higher education is in violation of the Constitution of the State;*

(5) provides for the payment of the non-Federal portion of such grants from funds supplied by such State which represent an additional expenditure for such year by such State for grants for students attending institutions of higher education over the amount expended by such State for such grants, if any, during the second fiscal year preceding the fiscal year in which such State initially received funds under this subpart; and

(6) provides (A) for such fiscal control and fund accounting procedures as may be necessary to assure proper disbursement of and accounting for Federal funds paid to the State agency under this subpart, and (B) for the making of such reports, in such form and containing such information, as may be reasonably necessary to enable the Commissioner to perform his functions under this subpart.

(c) Upon his approval of any application for a payment under this subpart, the Commissioner shall reserve from the applicable allotment (including any applicable reallocation) available therefor, the amount of such payment, which (subject to the limits of such allotment or reallocation) shall be equal to the Federal share of the cost of the student incentive grants covered by such application. The Commissioner shall pay such reserved amount, in advance or by way of reimbursement, and in such installments as he may determine. The Com-

missioner's reservation of any amount under this section may be amended by him, either upon approval of an amendment of the application or upon revision of the estimated cost of the student grants with respect to which such reservation was made, and in the event of an upward revision of such estimated cost approved by him he may reserve the Federal share of the added cost only from the applicable allotment (or reallocation) available at the time of such approval.

* * * * *

PART B—FEDERAL, STATE, AND PRIVATE PROGRAMS OF LOW-INTEREST INSURED LOANS TO STUDENTS IN INSTITUTIONS OF HIGHER EDUCATION

* * * * *

LIMITATIONS ON INDIVIDUAL FEDERALLY INSURED LOANS AND ON FEDERAL LOAN INSURANCE

SEC. 423. (a) (1) The total of loans made to a student in any academic year or its equivalent (as determined by the Commissioner) which may be covered by Federal loan insurance under this part may not exceed \$2,500 in the case of a student who has not successfully completed a program of undergraduate education, or \$5,000 in the case of a graduate or professional student (as defined in regulations of the Commissioner), except—

(A) that in the case of loans to a student for his first academic year of a program of postsecondary education, and who has not previously enrolled in such a program, which are made by an eligible lender as described in section 435(g)(1)(D) or which are made or originated (as defined in section 433(b)) by an eligible institution, the total of such loans may not exceed the lesser of \$2,500 or 50 per centum of the estimated cost of attendance (calculated in accordance with the provisions of section **[428(a)(2)(C)(i)] 428(a)(2)(B)(i)**),

(B) that in the case of a loan made or originated (as defined in section 433(b)) by an eligible institution which is made to such a first-year student, the loan may exceed \$1,500 only if it is to be disbursed in two or more installments none of which exceeds one-half of the loan, with the interval between the first and second of such installments being not less than one-third of the period of enrollment for which the student received the loan, and

(C) in cases where the Commissioner determines, pursuant to regulations prescribed by him, that a higher amount is warranted in order to carry out the purposes of this part with respect to students engaged in specialized training requiring exceptionally high cost of education.

The annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any year in excess of the annual limit. For the purpose of clause (B), all loans made within any period of 90 days shall be considered a single loan.¹

(2) The aggregate insured unpaid principal amount for all such insured loans made to any student shall not at any time exceed \$7,500, in the case of any student who has not successfully completed a pro-

gram of undergraduate education, and \$15,000 in the case of any graduate or professional student (as defined by regulations of the Commissioner and including any loans which are insured by the Commissioner under this part, or by a State or nonprofit institution or organization with which the Commissioner has an agreement under section 428(b), made to such person before he became a graduate or professional student).

• • • • •
[(C)](B) For the purposes of paragraph (1) and this paragraph—

(i) a student's estimated cost of attendance means, for the period for which the loan is sought, the tuition and fees applicable to such student together with the institution's estimate of other expenses reasonably related to attendance at such institution, including, but not limited to, the cost of room and board, reasonable commuting costs, and costs for books;

(ii) a student's estimated financial assistance means, for the period for which the loan is sought, the amount of assistance such student will receive under parts A, C, and E of this title, plus other scholarship, grant, or loan assistance;

(iii) the term 'eligible institution' when used with respect to a student is the eligible institution at which the student has been accepted for enrollment or, in the case of a student who is in attendance at such an institution, at which the student is in good standing (as determined by such institution) **[:]**.

[(iv) the determination of need and the amount of a loan recommended by an eligible institution under subparagraph (B) (ii) with respect to a student shall be determined by subtracting from the estimated cost of attendance at such institution the total of the expected family contribution with respect to such student (as determined by means other than one formulated by the Commissioner under subpart 1 of part A of this title) plus any other resources or student financial assistance reasonably available to such student. **]**

(D) (C) For the purposes of this paragraph, the adjusted family income of a student shall be determined pursuant to regulations of the Commission in effect at the time of the execution of the note or written agreement evidencing the loan. Such regulations shall provide for taking into account such factors, including family size, as the Commissioner deems appropriate. In the absence of fraud by the lender, such determination of the need of a student under this paragraph shall be final insofar as it concerns the obligation of the Commissioner to pay the holder of a loan a portion of the interest on the loan.

"(3) (A) Except as provided in paragraph (8), the portion of the interest on a loan which a student is entitled to have paid on his behalf and for his account to the holder of the loan pursuant to paragraph (1) of this subsection shall be equal to the total amount of the interest on the unpaid principal amount of the loan which accrues prior to the beginning of the repayment period of the loan, or which accrues during a period in which principal need not be paid (whether or not such principal is in fact paid)

by reason of a provision described in subsection (b)(1)(M) of this section or in section 427(a)(2)(C); but, except as provided in paragraph (8) of this subsection, such portion of the interest on a loan shall not exceed, for any period, the amount of the interest on that loan which is payable by the student after taking into consideration the amount of any interest on that loan which the student is entitled to have paid on his behalf for that period under any State or private loan insurance program. The holder of a loan with respect to which payments are required to be made under this section shall be deemed to have a contractual right, as against the United States, to receive from the Commissioner the portion of interest which has been so determined. The Commissioner shall pay this portion of the interest to the holder of the loan on behalf of and for the account of the borrower at such times as may be specified in regulations in force when the applicable agreement entered into pursuant to subsection (b) was made, or, if the loan was made by a State or is insured under a program which is not covered by such an agreement, at such times as may be specified in regulations in force at the time the loan was paid to the student.

FEDERAL PAYMENTS TO REDUCE STUDENT INTEREST COSTS

SEC. 428. (a)(1) Each student who has received a loan for study at an eligible institution—

(A) which is insured by the Commissioner under this part;

(B) which was made under a State student loan program (meeting criteria prescribed by the Commissioner), and which was contracted for, and paid to the student, within the period specified by paragraph (5); or

(C) which is insured under a program of a State or of a non-profit private institution or organization which was contracted for, and paid to the student, within the period specified in paragraph (5), and which—

(i) in the case of a loan insured prior to July 1, 1967, was made by an eligible lender and is insured under a program which meets the requirements of subparagraph (E) of subsection (b)(1) and provides that repayment of such loan shall be in installments beginning not earlier than sixty days after the student ceases to pursue a course of study (as described in subparagraph (D) of subsection (b)(1)) at an eligible institution, or

(ii) in the case of a loan insured after June 30, 1967, is insured under a program covered by an agreement made pursuant to subsection (b),

shall be entitled to have paid on his behalf and for his account to the holder of the loan a portion of the interest on such loan under circumstances described in paragraph (2).

[(2)(A) Each student qualifying for a portion of an interest payment under paragraph (1) shall—

(i) have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which he is in attendance in good standing (as determined by such institution), which—

(I) sets forth such student's estimated cost of attendance and

(II) sets forth such student's estimated financial assistance; and

(ii) meet the requirements of subparagraph (B).]

(2) (A) *Each student qualifying for a portion of an interest payment under paragraph (1) shall have provided to the lender a statement from the eligible institution, at which the student has been accepted for enrollment, or at which he is in attendance in good standing (as determined by such institution), which—*

(i) *sets forth such student's estimated cost of attendance, and*

(ii) *sets forth such student's estimated financial assistance.*

[(B) For the purposes of clause (ii) of subparagraph (A), a student shall qualify for a portion of an interest payment under paragraph (1) if such student's adjusted family income at the time of execution of the note or written agreement evidencing such loan—

(i) is less than \$25,000; or

(ii) is equal to or greater than \$25,000 and the eligible institution has provided the lender with a statement evidencing a determination of need and recommending a loan in the amount of such need.]

(B) If (i) a State student loan insurance program is covered by an agreement under subsection (b), (ii) a statute of such State limits the interest rate on loans insured by such program to a rate which is less than 7 per centum per annum on the unpaid principal balance, and (iii) the Commissioner determines that section 428(d) does not make such statutory limitation inapplicable and that such statutory limitation threatens to impede the carrying out of the purposes of this part, then he may pay an administrative cost allowance to the holder of each loan which is insured under such program and which is made during the period beginning on the sixtieth day after the date of enactment of the Higher Education Amendments of 1968 and ending 120 days after the adjournment of such State's first regular legislative session which adjourns after January 1, 1969. Such administrative cost allowance shall be paid over the term of the loan in an amount per annum (determined by the Commissioner) which shall not exceed 1 per centum of the unpaid principal balance of the loan.

(4) Each holder of a loan with respect to which payments of interest are required to be made by the Commissioner shall submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the purpose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan.

(5) The period referred to in subparagraphs (B) and (C) of paragraph (1) of this subsection shall begin on the date of enactment of this Act and end at the close of September 30, 1981, except that, in the case of a loan made or insured under a student loan or loan insurance program to enable a student who has obtained a prior loan made

or insured under such program to continue his educational program, such period shall end at the close of September 30, 1985.

(6) No payment may be made under this section with respect to the interest on a loan made from a student loan fund established under title II of the National Defense Education Act of 1959 or part E of this title.

(7) Nothing in this or any other Act shall be construed to prohibit or require, unless otherwise specifically provided by law, a lender to evaluate the total financial situation of a student making application for a loan under this part, or to counsel a student with respect to any such loan, or to make a decision based on such evaluation and counseling with respect to the dollar amount of any such loan.

(8) (A) In the case of any eligible lender (other than an eligible institution or any agency or instrumentality of a State), which is approved by the Commissioner pursuant to subparagraph (B) of this paragraph for the purpose of authorizing multiple disbursements and which enters into a binding agreement with a student to make a loan—

(i) for which the student is entitled to have a portion of the interest paid on his behalf under this section, and

(ii) the proceeds of which loan are to be paid to the student in multiple disbursements over the period of enrollment for which the loan is made, but not to exceed twelve months, the amount of the interest payment and the amount of any special allowance payment to be paid under section 438 shall be determined as if the entire amount to be made available for that period of enrollment has been disbursed on the date on which the first installment thereof was disbursed, and any increase in the rate of interest on the loan attributable to such multiple disbursements shall not be deemed to violate any provision of this part relating to the maximum rate of interest on such loan. The provisions of this paragraph shall apply only in the case of loans paid in multiple disbursements, in accordance with regulations of the Commissioner, based on the need of the student for the proceeds of such loan over the period of enrollment for which the loan is made.

(B) The Commissioner may approve an eligible lender for the purposes of this paragraph if he determines—

(i) that such lender is making or will be making a substantial volume of loans on which an interest subsidy is payable under this section, and

(ii) that such lender has sufficient experience and administrative capability in processing such loans to enable the lender to make such multiple disbursements in accordance with regulations issued by the Commissioner under this subparagraph.

[(9) With respect to any loan for which a determination must be made as to whether a portion of the interest is payable under this section, in the case of a student attending an eligible institution which is located in other than a State, the determination to be made and the statement to be provided by such institution under paragraph (2) (B) (ii) of this subsection shall be made and provided by (A) the Commissioner in the case of a loan described by paragraph (1) (A),

(B) the State in the case of a loan described by paragraph (1)(B), or (C) the State or a nonprofit private institution or organization as the case may be, in the case of a loan described by paragraph (1)(C).】

(b)(1) Any State or any nonprofit private institution or organization may enter into an agreement with the Commissioner for the purpose of entitling students who receive loans which are insured under a student loan insurance program of that State, institution, or organization to have made on their behalf the payments provided for in subsection (a) if the Commissioner determines that the student loan insurance program—

(A) authorizes the insurance in any academic year or its equivalent (as determined under regulations of the Commissioner) of not less than \$1,000 nor more than \$2,500 in the case of a student who has not successfully completed a program of undergraduate education, or \$5,000 in the case of a graduate or professional student (as defined in regulations of the Commissioner), except—

(i) that the program may not authorize the insurance of loans which are made by an eligible lender as described in section 435(g)(D) or which are made or originated (as defined in section 433(b)) by an eligible institution to a student for his first academic year of a program of postsecondary education, and who has not previously enrolled in such a program, in an amount in excess of the lesser of \$2,500 or 50 per centum of the estimated cost of attendance (calculated in accordance with [section 428(a)(2)(C)(i)]) section 428(a)(2)(B)(i),

(ii) that the program may not authorize the insurance of a loan in excess of \$1,500 for an academic year which is made or originated (as defined in section 433(b)) by an eligible institution, and is made to such a first-year student unless the loan is to be disbursed in two or more installments, none of which exceeds one-half of the loan, with the interval between the first and second of such installments being not less than one-third of the period of enrollment for which the student received the loan, and

(iii) in cases where the Commissioner determines, pursuant to regulations prescribed by him, that a higher amount is warranted in order to carry out the purposes of this part with respect to students engaged in specialized training requiring exceptionally high costs of education,

but the annual insurable limit per student shall not be deemed to be exceeded by a line of credit under which actual payments by the lender to the borrower will not be made in any years in excess of the annual limit, and all loans issued within any period of 90 days shall be considered as a single loan for purposes of division (ii):

(B) provides that the aggregate insured unpaid principal amount for all such insured loans made to any student shall not at any time exceed \$7,500, in the case of any student who has not successfully completed a program of undergraduate education, and \$15,000 in the case of any graduate or professional student (as defined by regulations of the Commissioner and including any

loans which are insured by the Commissioner under this part, or by a State or nonprofit institution or organization with which the Commissioner has an agreement under section 428(b), made to such person before he became a graduate or professional student);

(C) authorizes the insurance of loans to any individual student for at least six academic years of study or their equivalent (as determined under regulations of the Commissioner);

(D) provides that (i) the student borrower shall be entitled to accelerate without penalty the whole or any part of an insured loan, (ii) except as provided in subparagraph (M) of this paragraph, the period of any insured loan may not exceed fifteen years from the date of execution of the note or other written evidence of the loan, and (iii) the note or other written evidence of any loan, may contain such provisions relating to repayment in the event of default by the borrower as may be authorized by regulations of the Commissioner in effect at the time such note or written evidence was executed;

(E) subject to subparagraphs (D) and (L) of this paragraph and except as provided by subparagraph (M) of this paragraph, provides that repayment of loans shall be in installments over a period of not less than five years (unless the student, during the nine- to twelve-month period preceding the start of the repayment period, specifically requests that repayment be made over a shorter period) nor more than ten years beginning not earlier than nine months nor later than one year after the student ceases to pursue a full-time course of study at an eligible institution, except—

(i) that, if the program provides for the insurance of loans for part-time study at eligible institutions, the program shall provide that such repayment period shall begin not earlier than nine months nor later than one year after the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload as determined by the institution;

(ii) that the lender and the student, after the student ceases to carry at an eligible institution at least one-half the normal full-time academic workload, as determined by the institution, may agree to a repayment schedule which begins earlier, or is of shorter duration, than required by this subparagraph, except that in the event a student has requested and obtained a repayment period of less than five years, he may at any time prior to the total repayment of the loan have the repayment period extended so that the total repayment period is not less than five years;

(F) authorizes interest on the unpaid balance of the loan at a yearly rate not in excess of 7 per centum per annum on the unpaid principal balance of the loan (exclusive of any premium for insurance which may be passed on to the borrower);

(G) insures not less than 80 per centum of the unpaid principal of loans insured under the program;

(H) does not provide for collection of an excessive insurance premium;

(I) provides that the benefits of the loan insurance program will not be denied any student who is eligible for interest benefits under section 428(a) (1) and (2) except in the case of loans made by an instrumentality of a State or eligible institution;

(J) provides that a student may obtain insurance under the program for a loan for any year of study at an eligible institution;

(K) in the case of a State program, provides that such State program is administered by a single State agency, or by one or more nonprofit private institutions or organizations under supervision of a single State agency;

(L) provides that the total of the payments by a borrower during any year of any repayment period with respect to the aggregate amount of all loans to that borrower which are insured under this part shall not be less than \$360 or the balance of all such loans (together with interest thereon), whichever amount is less, unless the borrower and the lender otherwise agree, except that, in the case of a husband and wife, both of whom have such loans outstanding, the total of the combined payments for such a couple during any year shall not be less than \$360 or the balance of all such loans, whichever is less:

(M) provides that periodic installments of principal need not be paid, but interest shall accrue and be paid during any period (i) during which the borrower is pursuing a full-time course of study at an eligible institution, or is pursuing a course of study pursuant to a graduate fellowship program approved by the Commissioner, (ii) not in excess of three years during which the borrower is a member of the Armed Forces of the United States, (iii) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act, (iv) not in excess of three years during which the borrower is in service as a full-time volunteer under the Domestic Volunteer Service Act of 1973, or (v) during a single period, not in excess of twelve months, at the request of the borrower, during which the borrower is seeking and unable to find full-time employment;

(N) provides that in the case of each loan insured by the program that the eligible institution attended by the borrower at the time of the loan will be notified of such insurance and the name of the lender making the loan, and such notification will be made either by (i) the prompt transmittal of such information to the institution by the insurer or the lender, or (ii) a requirement of the insurer, as a condition of its insurance, that the lender shall transmit any checks for the proceeds of such loan directly to the eligible institution for delivery to the borrower;

(O) provides that funds borrowed by a student are disbursed by check payable to the order and requiring the endorsement of such student; and

(P) requires the borrower to promptly notify the holder of the loan concerning any change of address.

(2) Such an agreement shall—

(A) provide that the holder of any such loan will be required to submit to the Commissioner, at such time or times and in such manner as he may prescribe, statements containing such information as may be required by or pursuant to regulation for the pur-

pose of enabling the Commissioner to determine the amount of the payment which he must make with respect to that loan;

(B) include such other provisions as may be necessary to protect the financial interests of the United States and promote the purposes of this part, including such provisions as may be necessary for the purpose of section 437, and as are agreed to by the Commissioner and the State or nonprofit private organization or institution, as the case may be; and

(C) provide for making such reports, in such form and containing such information, as the Commissioner may reasonably require to carry out his function under this part, and for keeping such records and for affording such access thereto as the Commissioner may find necessary to assure the correctness and verification of such reports.

* * * * *

11
12
13
14

ADDITIONAL VIEWS OF SENATORS SCHWEIKER,
HATCH, AND HAYAKAWA

It is our great concern over the presently limited access many middle- and lower-income families have to higher education which required us to vote for this bill. Although we felt constrained to vote for this bill. Although we felt constrained to vote to report S. 2539 from the Human Resources Committee, we want to register our continued support for tuition tax relief legislation. We are concerned that S. 2539 might be used to head off fair consideration by the full Senate of tuition tax relief for those with children in elementary, secondary, and postsecondary schools. S. 2539, although a substantial expansion of existing Federal financial aid programs, has only been subject to 1 day of hearings in an unusual forum, joint Senate Human Resources and House Education and Labor Committee meeting. Many aspects of this bill have not been discussed in detail. For example, the Guaranteed Student Loan program will be opened up to everyone by S. 2539 despite a recent report by the Secretary of Health, Education, and Welfare which suggests that the program is plagued with fraud and defaults. While we have no difficulty with the concept of lifting the income level for this program completely, we would like the Secretary to know that we feel the success of the loan program in meeting the needs of many students will be dependent on careful administration and effective repayment procedures. As members of this committee, we intend to closely monitor developments in this area.

Some form of assistance must be granted by the Congress this year for those who struggle with higher education expenses. However, we want to make clear our intention to support tuition tax relief legislation on the Senate floor.

RICHARD S. SCHWEIKER.
ORRIN G. HATCH.
S. I. HAYAKAWA.

○
(32)